

It's still time to care about aged care

Financial Sustainability Summit

Issues Paper

Executive Summary

August 2023

About ACCPA

The Aged & Community Care Providers Association (ACCPA) is the national Industry Association for aged care providers offering retirement living, seniors housing, residential care, home care, community care and related services.

ACCPA exists to unite aged care providers under a shared vision to enhance the wellbeing of older Australians through a high performing, trusted and sustainable aged care sector. We support our members to provide high quality care and services while amplifying their views and opinions through an authoritative and comprehensive voice to the government, community, and media.

Our sector serves to make better lives for older Australians, and so do we.

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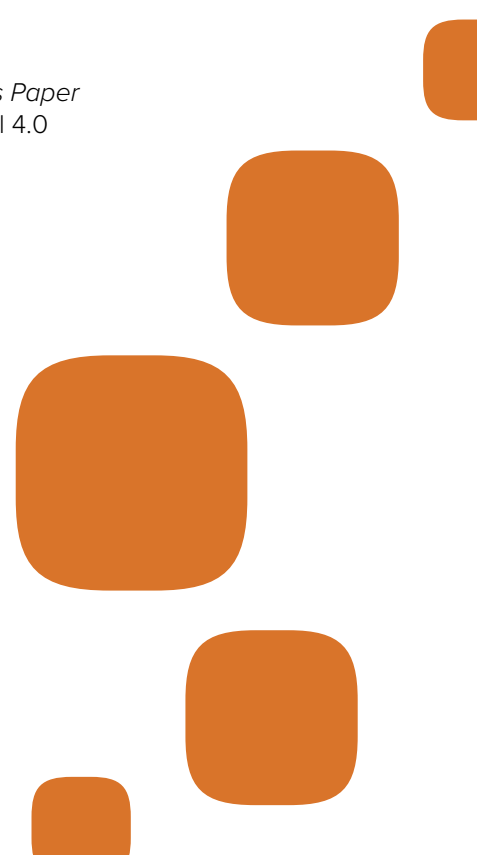
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The challenge

Australia's population is ageing. More than 4.2 million Australians are currently aged 65 or over, representing 16% of the population.¹ By 2066, that figure will climb to almost a quarter of the national population.²

This inescapable reality means that demand for aged care services will continue to increase, while the proportion of the Australian working population decreases.

At the same time, chronic underfunding for aged care services has resulted in an unsustainable sector –negatively impacting the standard of care older Australians receive.

The Royal Commission into Aged Care Quality and Safety confirmed what has been known to many within the industry for decades: a poorly funded aged care sector compromises service delivery and results in substandard care.

Currently, the long-term financial viability of the sector is at risk with the majority of residential aged care facilities operating at a loss. The viability of home and community care providers also continues to trend down, highlighting the unsustainability of current aged care funding.³ The way Australia funds aged care, which has remained relatively unchanged for decades, needs to be modernised.

The key question is how we balance the fairness of asking older Australians with financial means to make a greater financial contribution to their own care, against the fairness of asking a shrinking percentage of working-age Australians to fund a growing aged care system through their taxes.

Three pillars of aged care funding

Broadly speaking, aged care funding is divided into three categories:

- 1. Care.** This includes nursing, personal care and support with daily living tasks, allied health services and medical care, whether in a person's own home or in residential aged care. In both residential and home-based services, these costs are largely funded by government with some means-tested contributions from individuals.
- 2. Accommodation (residential care only).** This relates to the cost of providing suitable accommodation in residential services, with funds allocated to the construction and ongoing refurbishment of the room that a resident lives in, as well as the attached infrastructure and communal areas. While the vast majority of Australian households pay for the full cost of their own accommodation and housing, with fewer than 4% able to access subsidised social housing,⁴ the government heavily subsidises the accommodation cost of a large percentage of residential aged care residents. This is the area that accounts for the majority of the losses reported by the sector.
- 3. Lifestyle expenses.** This includes cleaning, food, laundry, heating, lifestyle activities and travel. In residential care, these items are largely funded by individuals through a daily services fee that is capped at 85% of the pension, regardless of the ability of residents to pay. As this does not cover the cost of delivering these services, the government provides top-up funding for all residents.

Providers can also charge additional fees to residents for hotel-type services, such as better accommodation, food and services, where they receive extra services that are outside, or substantially better than, those required by government.⁵ In the context of the numbers of older Australians in residential aged care, these fees are only paid by a small minority of residents.

When thinking about future funding options, we need to consider what Australians believe the government should fund versus what it is reasonable to ask individuals to continue to fund into their old age – if they have the means.

The current funding system

A research report to the Royal Commission into Aged Care Quality and Safety identified that in 2018-19, about 75% of the annual cost of the aged care system was funded by the Australian Government from taxpayer funds, while approximately 20% was paid directly by care recipients themselves through co-payments and means- tested fees.⁶ A further 1.1% was paid by state and territory governments, with the remaining 3.8% funded from other sources.⁷

While it is acknowledged that comparing aged care funding models internationally is difficult, the Royal Commission's Final Report found that countries with comparable demographics to Australia spend about twice as much on long term care of older people, as a proportion of GDP.⁸

Australia invests about \$30 billion a year, or about 1.2% of GDP, on long term care compared to the OECD average of 2.5%. Denmark, Sweden, the Netherlands and Japan spend more than 3-5% of GDP on long term care.⁹

Future funding options

Increasing government revenue to pay for aged care can be achieved in three principal ways:

1. higher taxation, or a greater proportion or re-prioritisation of existing taxation
2. the introduction of an 'aged care levy', similar to the existing Medicare levy (or an expansion of the existing Medicare levy to include aged care) or a hypothecated levy,¹⁰ and/or
3. the introduction of a new social insurance scheme.

Likewise, increasing consumer payments, or co-contributions, can be achieved in three principal ways:

1. means testing
2. pay as you go, and/or
3. pre-payment.

Australia will either need to consider how it sustainably funds aged care in the future, including more funding from both the government and private sources to reach international standards, or accept a lower standard of care for older people than comparable countries and community expectations. Indeed, the Aged Care Financing Authority (ACFA) found that a sustainable aged care system can only be achieved with more co-contributions from older Australians who can afford to make them.¹¹

It is important to note that large numbers of older Australians have the financial means to contribute to the cost of the services they need. However, the current system discourages, and in some cases prohibits, them from doing so. The Federal Government's 2020 Retirement Income Review Report found that *"most people die with the bulk of the wealth they had at retirement intact"*.¹²

Over the past 20 years, almost \$1.4 trillion has been gifted by Australians in inheritances after they die.¹³ This means that older Australians are potentially denying themselves the care they need, in order to pass on an inheritance - despite recent research showing that almost three quarters of Australians are willing to forego a portion of their own inheritance so their parents and grandparents can enjoy the retirement they deserve.¹⁴

However, if individuals are to be asked to contribute more to their own care, the community will need to consider what should be taxpayer-funded, either from general revenue or other sources such as a dedicated levy, and what should be funded by individuals.

This set of challenges formed the basis for the Aged Care Financial Sustainability Summit held in Canberra on 1 June 2023.

Summit participants considered the benefits and challenges of the options for increased public funding, as summarised in Section 2. They also discussed the possibility of introducing additional forms of consumer co-contributions, and considered the options in terms of equity and sustainability, as shown in Section.

A number of these funding sources were also considered, and recommended, by the Royal Commission into Aged Care Quality and Safety.

Key principles

Following the views expressed at the Summit, combined with follow-up submissions, this Paper identifies ten principles for consideration in the design of a sustainable aged care system in Australia:

1. **Independent and person-centred** - maintaining independence as we age is critical and can be central to a person's identity and sense of self; many people wish to age in their own homes and community - the aged care system should prioritise this.
2. **Efficient** – financing systems should be integrated across health and aged care and should consider efficiency in aged care delivery.
3. **Transparent and specific** – it should be clear who is paying for what in the aged care system.
4. **Equitable** – every person in Australia should have access to high-quality aged care, regardless of their location, income or financial means.
5. **Means-tested** – those with financial means should pay for or make a contribution to their accommodation and lifestyle expenses.
6. **Flexible design for First Nations aged care** – there should be an appropriate and tailored funding system for First Nations aged care.
7. **Universal** – the Government should continue to be the primary funder of care.
8. **Future-focused** – the aged care system should aim to support quality into the future, rather than maintaining the status quo.
9. **Guaranteed** – service levels should be guaranteed, including for thin markets, which requires appropriately skilled and supported aged care workers.
10. **Inter-generationally fair** – aged care funding should be designed for the long-term, be predictable and be sustainable.

Conclusion

Australia needs to urgently modernise its aged care funding model. This is particularly critical given Australia's population will progressively age over the next 20 years, and the parallel expectation in the community to improve the quality of care and supports older Australians receive.

While funding alone will not solve all of the problems in aged care, the current financial situation makes solving those problems impossible.

This Paper identifies ten principles for consideration when designing a new funding model for aged care funding should be transparent, efficient, equitable, means-tested, include flexible design for First Nations aged care, be universal, future-focused, guaranteed, inter-generationally fair, and support independence.

As per Summit participant views, this Paper proposes that the Federal Government continue to be the primary funder of care services – as they are for Australians throughout their lives through the NDIS, Medicare and the public health system.

People should not be treated differently simply because they are over the age of 65, regardless of whether they are still living in the community or in a residential aged care home. However, for those who can afford it, there should be consideration of increased consumer co-contributions in aged care for accommodation and lifestyle expenses, which people have funded throughout their lives.

We can no longer put off the structural reforms needed to ensure older Australians receive the care, dignity and quality of life they need.

Endnotes

- 1 Australian Institute of Health and Welfare, Older Australians, 28 June 2023, <https://www.aihw.gov.au/reports/older-people/older-australians/contents/demographic-profile>
- 2 Ibid.
- 3 StewartBrown, Aged Care Financial Performance Survey Report, March 2023, https://www.stewartbrown.com.au/images/documents/StewartBrown_-_Aged_Care_Financial_Performance_Survey_Report_March_2023.pdf
- 4 Australian Housing and Urban Research Institute, What is the right level of social housing for Australia?, 6 July 2022, [https://www.ahuri.edu.au/analysis/brief/what-right-level-social-housing-australia#:~:text=In%20the%2040%20years%20between,\(from%202021%20ABS%20Census\)](https://www.ahuri.edu.au/analysis/brief/what-right-level-social-housing-australia#:~:text=In%20the%2040%20years%20between,(from%202021%20ABS%20Census))
- 5 Department of Health and Aged Care, Extra services agreements for residential aged care, 19 August 2022, <https://www.health.gov.au/our-work/residential-aged-care/managing-residential-aged-care-services/extra-services-agreements-for-residential-aged-care>
- 6 Royal Commission into Aged Care Quality and Safety, Financing Aged Care Consultation Paper 2, June 2020, p.3, https://agedcare.royalcommission.gov.au/sites/default/files/2020-06/consultation_paper_2_-_financing_aged_care_0.pdf
- 7 Ibid.
- 8 Royal Commission into Aged Care Quality and Safety, Review of International Systems for Long-term Care of Older People: Research Paper 2, January 2020, p.xi, <https://agedcare.royalcommission.gov.au/sites/default/files/2020-09/Research%20Paper%202%20-%20Review%20of%20international%20systems%20for%20long-term%20care%20of....pdf>
- 9 Ibid., p.43.
- 10 The Executive Summary of the Final Report of the Royal Commission into Aged Care Quality and Safety states, 'To increase the sustainable funding for high quality aged care, we both support consideration of the introduction of a levy on taxable income to finance aged care. However, we differ on the optimum design of a levy, particularly about how much of the costs of the aged care system a levy should cover, and the form of a levy, whether it should be hypothecated or non-hypothecated.' Commissioner Pagone recommended a hypothecated levy (Recommendation 138), while Commissioner Briggs recommended an earmarked levy to be based on legislation related to a Medicare levy (Recommendation 144). See Royal Commission into Aged Care Quality and Safety, Final Report – Executive Summary, March 2021, p.164-168, <https://agedcare.royalcommission.gov.au/sites/default/files/2021-03/final-report-executive-summary.pdf>
- 11 Aged Care Financing Authority, Submission to Royal Commission into Aged Care Quality and Safety, April 2019, p.4, <https://agedcare.royalcommission.gov.au/system/files/2020-09/AWF.500.00197.0002.pdf>
- 12 The Australian Government the Treasury, Retirement Income Review Final Report, July 2020, p.23, <https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-udcomplete-report.pdf>
- 13 Productivity Commission, Wealth Transfers and their Economic Effects - Research Paper, November 2021, p.36, <https://www.pc.gov.au/research/completed/wealth-transfers/wealth-transfers.pdf>
- 14 Ideagen Complispace, CompliSpace Aged Care Funding Report: Towards the Tipping Point in Aged Care Funding, 2023, p.3, <https://www.complispace.com.au/funding-report-2023>

